

FILING A CLAIM

1. Introduction

Government Code (GC) sections 17500 through 17617 provide for the reimbursement of costs incurred by local agencies for costs mandated by the State. These are costs that local agencies are required to incur after July 1, 1980, as a result of any statute enacted after January 1, 1975, or any executive order implementing such statute which mandates a new program or higher level of service of an existing program.

A reimbursement claim is defined in GC section 17522 as any claim filed with the State Controller's Office (SCO) by a local agency for reimbursement of costs incurred for which an appropriation is made for the purpose of paying the claim. Actual claims for the 2012-13 fiscal year, will be accepted without penalty if postmarked or delivered on or before **February 18, 2014**, or otherwise specified in the claiming instructions. Ongoing reimbursement claims filed after the deadline will be reduced by a late penalty of **10%, not to exceed \$10,000**. Amended claims filed after the filing deadline will be reduced by **10% of the increased amount not to exceed \$10,000** for the total claim. Initial reimbursement claims filed after the filing deadline will be reduced by a late penalty of **10% with no limitation**. Claims filed more than one year after the deadline will not be accepted by the SCO.

If a claimant is using an indirect cost rate that exceeds 10%, **documentation to support the indirect cost rate must be included with the submitted claim**. A more detailed discussion of the indirect cost methods available to local agencies can be found in Section 2, Filing a Claim, page 10, **Indirect Costs**. Documentation to support actual costs must be kept on hand by the claimant and made available to the SCO on request as explained in Section 2, Filing a Claim, page 19, **Retention of Claim Records and Supporting Documentation**.

When a program has been reimbursed for three or more years, the Commission on State Mandates (CSM) may approve the program for inclusion in the State Mandates Apportionment System (SMAS). For programs included in SMAS, the SCO determines the amount of each claimant's entitlement based on an average of three consecutive fiscal years of actual costs adjusted by any changes in the Implicit Price Deflator (IPD). Claimants with an established entitlement receive an annual apportionment adjusted by any changes in the IPD and, under certain circumstances, by any changes in workload. Claimants with an established entitlement are not required to file further claims for the program.

The SCO is authorized to make payments for costs of mandated programs from amounts appropriated by the State Budget Act, by the State Mandates Claims Fund, or by specific legislation. In the event the appropriation is insufficient to pay claims in full, claimants will receive prorated payments in proportion to the dollar amount of approved claims for the program. Balances of prorated payments will be made when supplementary funds become available.

2. Types of Claims

Claimants may file a reimbursement claim for actual mandated costs incurred in the prior fiscal year. An entitlement claim may be filed for the purpose of establishing a base year entitlement amount for mandated programs included in SMAS. A claimant who has established a base year entitlement for a program would receive an automatic annual payment, which is reflective of the current costs for the program.

All claims received by the SCO will be reviewed to verify actual costs. An adjustment of the claim will be made if the amount claimed is determined to be excessive, improper, or unreasonable.

A. Reimbursement Claim

A reimbursement claim is defined in GC section 17522 as any claim filed with the SCO by a local agency for reimbursement of costs incurred for which an appropriation is made for the purpose of paying the claim.

Initial reimbursement claims are first-time claims for reimbursement of costs for one or more prior fiscal year(s) of a program that was previously unfunded. Claims are due one hundred and twenty days from the date of issuance of the claiming instructions for the program by the SCO. The first statute that appropriates funds for the mandated program will specify the fiscal years for which costs are eligible for reimbursement.

Annual ongoing reimbursement claims must be filed by February 15th, unless otherwise specified in the claiming instructions, following the fiscal year in which costs were incurred for the program. Claims for fiscal year 2012-13 will be accepted without late penalty if postmarked or delivered on before the deadline. Claims filed after the deadline will be reduced by a late penalty of 10%, not to exceed \$10,000. However, initial reimbursement claims will be reduced by a late penalty of 10% with no limitation. Amended claims filed after the deadline will be reduced by 10% of the increased amount not to exceed \$10,000 for the claim. Claims filed more than one year after the deadline will not be accepted for reimbursement.

B. Entitlement Claim

An entitlement claim is defined in GC section 17522 as any claim filed by a local agency with the SCO for the sole purpose of establishing or adjusting a base year entitlement for a mandated program that has been included in SMAS. An entitlement claim should not contain nonrecurring or initial start-up costs. There is no statutory deadline for the filing of entitlement claims. However, entitlement claims and supporting documents should be filed by February 15 following the third fiscal year used to develop the entitlement claim, to permit an orderly processing of claims. When the claims are approved and a base year entitlement amount is determined, the claimant will receive an apportionment reflective of the program's current year costs.

The automatic apportionment is determined by adjusting the claimant's base year entitlement for changes in the IPD of costs of goods and services to governmental agencies, as determined by the State Department of Finance (DOF). For programs approved by CSM for inclusion in SMAS on or after January 1, 1988, the payment for each year succeeding the three year in base period is adjusted according to any changes by both the IPD and workload.

SCO will perform this computation for each claimant who has filed claims for three consecutive years. If a claimant has incurred costs for three consecutive years but has not filed a claim in each of those years, the claimant may file an entitlement claim; Form FAM-43, to establish a base year entitlement. The Form FAM-43 is included in the claiming instructions for SMAS programs. An entitlement claim does not result in the claimant being reimbursed for the costs incurred, but rather entitles the claimant to receive automatic payments from SMAS. Annual apportionments for programs included in the system are paid on or before November 30 of each year.

3. Minimum Claim Amount

For initial claims and annual claims filed on or after September 30, 2002, if the total costs for a given year do not exceed \$1,000, no reimbursement will be allowed except as otherwise authorized by GC section 17564. Combined claims may be filed only when the county is the fiscal agent for the special districts. The county will determine if the submission of a combined claim is economically feasible and will be responsible for disbursing the funds to each special district. A combined claim must show the individual claim costs for each eligible special district. All subsequent claims based upon the same mandate must only be filed in the combined form unless a special district provides to the county and to the Controller, at least 180 days prior to the deadline for filing the claim, a written notice of its intent to file a separate claim.

4. Filing Deadline for Claims

Pursuant to GC section 17561(d) initial reimbursement claims (first time claims) for reimbursement of costs of a previously unfunded mandated program must be filed within one hundred and twenty days from the date the SCO issues the claiming instructions for the program. When paying a timely

filed claim for initial reimbursement, the Controller may withhold twenty percent of the amount of the claim until the claim is audited to verify the actual amount of the mandated costs. Initial reimbursement claims filed after the filing deadline will be reduced by ten percent of the amount that would have been allowed had the claim been timely filed.

The Controller may withhold payment of any late claim for initial reimbursement until the next deadline for funded claims unless sufficient funds are available to pay the claim after all timely filed claims have been paid. All initial reimbursement claims for all fiscal years required to be filed on their initial filing date for a program will be considered as one claim for the purpose of computing any late claim penalty. In no case will a reimbursement claim be paid if submitted more than one year after the filing deadline specified in the Controller's claiming instructions on funded mandates.

Pursuant to GC section 17560, annual reimbursement claims (recurring claims) for costs incurred during the previous fiscal year must be filed with the SCO and postmarked on or before February 15th unless otherwise specified in the claiming instructions, following the fiscal year in which costs were incurred. If the annual reimbursement claim is filed after the deadline, but within one year of the deadline, the approved claim must be reduced by a 10% late penalty, not to exceed \$10,000. Amended claims filed after the deadline will be reduced by 10% of the increased amount not to exceed \$10,000 for the total claim. Claims may not be filed more than one year after the deadline.

5. Payment of Claims

In order for the SCO to authorize payment of a claim, the Certification of Claim, Form FAM-27, must be properly filled out, signed, and dated by the entity's authorized officer. Pursuant to GC section 17561(d), reimbursement claims are paid by October 15 or sixty days after the date the appropriation for the claim is effective, whichever is later. In the event the amount appropriated by the Legislature is insufficient to pay the approved amount in full for a program, claimants will receive a prorated payment in proportion to the amount of approved claims timely filed and on hand at the time of proration.

A claimant is entitled to receive accrued interest at the Pooled Money Investment Account rate for any unpaid subsequent claim amount remaining on August 15 following the filing deadline. Interest shall begin to accrue on August 16 following the filing deadline. For an initial claim, interest begins to accrue when the payment is made more than 365 days after the adoption of the program's statewide cost estimate. SCO may withhold up to twenty percent of the amount of an initial claim until the claim is audited to verify the actual amount of the mandated costs.

The SCO reports the amounts of insufficient appropriations to the DOF, the Chairperson of the Joint Legislative Budget Committee, and the Chairperson of the respective committee in each House of the Legislature. Any balances remaining on these claims will be paid if supplementary funds become available.

Unless specified in the statutes, regulations, or Parameters and Guidelines (P's & G's), the determination of allowable and unallowable costs for mandates is based on the P's & G's adopted by the CSM. Allowable costs are those direct and indirect costs, less applicable credits, considered eligible for reimbursement. In order for costs to be allowable and thus eligible for reimbursement, the costs must meet the following general criteria:

1. The cost is necessary and reasonable for proper and efficient administration of the mandate and not a general expense required to carry out the overall responsibilities of government.
2. The cost is allocable to a particular cost objective identified in the P's & G's.
3. The cost is net of any applicable credits that offset or reduce expenses of items allocable to the mandate.

The SCO has identified certain costs that should not be claimed as direct program costs unless specified as reimbursable under the program's P's & G's. These costs include, but are not limited to, subscriptions, depreciation, memberships, conferences, workshops, general education, and travel costs.

6. State Mandates Apportionment System (SMAS)

Chapter 1534, Statutes of 1985, established SMAS, a method of paying certain mandated programs as apportionments. This method is utilized whenever a program has been approved for inclusion in SMAS by the CSM.

When a mandated program has been included in SMAS, the SCO will determine a base year entitlement amount for each local agency that has submitted reimbursement claims, (or entitlement claims), for three consecutive fiscal years. A base year entitlement amount is determined by averaging the approved reimbursement claims, (or entitlement claims), for 1982-83, 1983-84, and 1984-85 years or any three consecutive fiscal years thereafter. The amounts are first adjusted by any change in the IPD, which is applied separately to each year's costs for the three years that comprise the base period. The base period means the three fiscal years immediately succeeding the CSM's approval.

Each local agency with an established base year entitlement for the program will receive automatic annual payments from the SCO reflective of the program's current year costs. The amount of apportionment is adjusted annually for any change in the IPD. If the mandated program was included in SMAS after January 1, 1988, the annual apportionment is adjusted for any change in both the IPD and workload.

For cities and counties, workload means a change in population within their boundaries; for special districts, a change in population of the county in which the largest percentage of the district's population is located.

In the event a local agency has incurred costs for three consecutive fiscal years but did not file a reimbursement claim in one or more of those fiscal years, the local agency may file an entitlement claim for each of those missed years to establish a base year entitlement. An entitlement claim means any claim filed by a local agency with the SCO for the sole purpose of establishing a base year entitlement. A base year entitlement may not include any non-recurring or initial start-up costs.

Initial apportionments are made on an individual program basis. After the initial year, all apportionments are made by November 30th. The amount to be apportioned is the base year entitlement adjusted by annual changes in the IPD for the cost of goods and services to governmental agencies as determined by the DOF.

In the event the local agency determines that the amount of apportionment does not accurately reflect costs incurred to comply with a mandate, the process of adjusting an established base year entitlement upon which the apportionment is based is set forth in GC section 17615.8 and requires the approval of the CSM.

The following programs are placed in SMAS:

Program Name	Chapter/Statute	Program Number
Coroners Costs	498/77	88
Senior Citizens Property Tax Postponement	1242/77	18
Mentally Retarded Defendants: Diversion	1253/80	66
Conservatorship: Developmentally Disabled Adults	1304/80	67

Listed are state mandated local programs and counties that are entitled to receive automatic apportionments in those fiscal years in which the program is funded.

Counties of:	Ch. 498/77 Coroners Costs	Ch. 1242/77 Senior Citizens Property Tax Postponement	Ch. 1253/80 Mentally Retarded Defendants: Diversion	Ch. 1304/80 Developmentally Disabled Adults: Conservatorship
Alameda		X	X	X
Butte		X	X	X
Calaveras		X	X	X
Contra Costa		X	X	X
El Dorado		X	X	X
Fresno		X	X	X
Humbolt		X	X	X
Kern		X	X	X
Lake		X	X	X
Los Angeles	X	X	X	X
Marin		X	X	X
Mendocino		X	X	X
Monterey		X	X	X
Napa	X	X	X	X
Nevada		X	X	X
Orange	X	X	X	X
Placer		X	X	X
Plumas		X	X	X
Riverside		X	X	X
Sacramento		X	X	X
San Bernardino	X	X	X	X
San Diego		X	X	X
San Francisco		X	X	X
San Joaquin	X	X		
San Luis Obispo	X	X	X	X
San Mateo		X	X	X
Santa Barbara		X	X	X
Santa Clara	X	X	X	X
Santa Cruz		X	X	X
Shasta		X	X	X
Solano		X	X	X
Sonoma	X	X	X	X
Stanislaus		X	X	X
Tulare	X	X	X	X
Tuolumne		X		
Ventura	X	X	X	X
Yolo		X	X	X
Yuba		X		

7. Direct Costs

A direct cost is a cost that can be identified specifically with a particular program or activity. Documentation to support direct costs must be kept on hand unless otherwise specified in the claiming instructions and made available to the SCO on request.

It is the responsibility of the claimant to maintain documentation in the form of general and subsidiary ledgers, purchase orders, invoices, contracts, canceled warrants, equipment usage records, land deeds, receipts, employee time sheets, agency travel guidelines, inventory records, and other relevant documents to support claimed costs. The type of documentation necessary for each claim may differ with the type of mandate.

Costs typically classified as direct costs are:

(1) Employee Wages, Salaries, and Fringe Benefits

For each of the mandated activities performed, the claimant must list the names of the employees who worked on the mandate, their job classification, hours worked on the mandate, and rate of pay. The claimant may, in-lieu of reporting actual compensation and fringe benefits, use a productive hourly rate:

(a) Productive Hourly Rate Options

A local agency may use one of the following methods to compute productive hourly rates:

- Actual annual productive hours for each employee
- The weighted-average annual productive hours for each job title, or
- 1,800* annual productive hours for all employees

If actual annual productive hours or weighted-average annual productive hours for each job title is chosen, the claimant must maintain documentation of how these hours were computed.

* 1,800 annual productive hours excludes the following employee time:

- Paid holidays
- Vacation earned
- Sick leave taken
- Informal time off
- Jury duty
- Military leave taken.

(b) Compute a Productive Hourly Rate

1. Compute a productive hourly rate for salaried employees to include actual fringe benefit costs. The methodology for converting a salary to a productive hourly rate is to compute the employee's annual salary and fringe benefits and divide by the annual productive hours.

Table 1: Productive Hourly Rate, Annual Salary + Benefits Method

Formula:	Description:
$[(EAS + \text{Benefits}) \div APH] = PHR$	EAS = Employee's Annual Salary
	APH = Annual Productive Hours
$[(\$26,000 + \$8,099)] \div 1,800 \text{ hrs} = 18.94$	PHR = Productive Hourly Rate

- As illustrated in Table 1, if you assume an employee's compensation was \$26,000 and \$8,099 for annual salary and fringe benefits, respectively, using the "Salary + Benefits Method," the productive hourly rate would be \$18.94. To convert a biweekly salary to Annual Salary, multiply the biweekly salary by 26. To convert a monthly salary to Annual Salary, multiply the monthly salary by 12. Use the same methodology to convert other salary periods.
2. A claimant may also compute the productive hourly rate by using the "Percent of Salary Method."

Table 2: Productive Hourly Rate, Percent of Salary Method

Example:		
Step 1: Fringe Benefits as a Percent of Salary		Step 2: Productive Hourly Rate
Retirement	15.00 %	Formula: [(EAS x (1 + FBR)) ÷ APH] = PHR
Social Security & Medicare	7.65	
Health & Dental Insurance	5.25	
Workers Compensation	3.25	[((\$26,000 x (1.3115)) ÷ 1,800] = \$18.94
Total	31.15 %	
Description:		
EAS = Employee's Annual Salary		APH = Annual Productive Hours
FBR = Fringe Benefit Rate		PHR = Productive Hourly Rate

- As illustrated in Table 2, both methods produce the same productive hourly rate.

Reimbursement for personnel services includes, but is not limited to, compensation paid for salaries, wages and employee fringe benefits. Employee fringe benefits include employer's contributions for social security, pension plans, insurance, worker's compensation insurance and similar payments. These benefits are eligible for reimbursement as long as they are distributed equitably to all activities. Whether these costs are allowable is based on the following presumptions:

- The amount of compensation is reasonable for the service rendered;
- The compensation paid and benefits received are appropriately authorized by the governing board;
- Amounts charged for personnel services are based on payroll documents that are supported by time and attendance or equivalent records for individual employees;
- The methods used to distribute personnel services should produce an equitable distribution of direct and indirect allowable costs.

For each of the employees included in the claim, the claimant must use reasonable rates and hours in computing the wage cost. If a person of a higher-level job position performs an activity which normally would be performed by a lower-level position, reimbursement for time spent is allowable at the average salary range for the lower-level position. The salary rate of the person at the higher-level position may be claimed if it can be shown that it was more cost effective in comparison to the performance by a person at the lower-level position under normal circumstances and conditions. The number of hours charged to an activity should reflect the time expected to complete the activity under

normal circumstances and conditions. The numbers of hours in excess of normal expected hours are not reimbursable.

(c) Calculating an Average Productive Hourly Rate

In those instances where the claiming instructions allow a unit as a basis of claiming costs, the direct labor component of the unit cost should be expressed as an average productive hourly rate and can be determined as follows:

Table 3: Calculating an Average Productive Hourly Rate

	<u>Time Spent</u>	<u>Productive Hourly Rate</u>	<u>Total Cost by Employee</u>
Employee A	1.25 hrs	\$6.00	\$7.50
Employee B	0.75 hrs	4.50	\$3.38
Employee C	3.50 hrs	10.00	\$35.00
Total	5.50 hrs		\$45.88
Average Productive Hourly Rate is $\$45.88 \div 5.50 \text{ hrs.} = \8.34			

(d) Employer's Benefits Contribution

A local agency has the option of claiming actual employer's fringe benefit contributions or may compute an average fringe benefit cost for the employee's job classification and claim it as a percentage of direct labor. The same time base should be used for both salary and fringe benefits when computing a percentage. For example, if health and dental insurance payments are made annually, use an annual salary. After the percentage of salary for each fringe benefit is computed, total them. For example:

<u>Employer's Contribution</u>	<u>% to Salary</u>
Retirement	15.00%
Social Security	7.65%
Health and Dental Insurance	5.25%
Worker's Compensation	0.75%
Total	<u>28.65%</u>

(2) Materials and Supplies

Only actual expenses can be claimed for materials and supplies, which were acquired and consumed specifically for the purpose of a mandated program. The claimant must list the materials and supplies that were used to perform the mandated activity, the number of units consumed, the cost per unit, and the total dollar amount claimed. Materials and supplies purchased to perform a particular mandated activity are expected to be reasonable in quality, quantity and cost. Purchases in excess of reasonable quality, quantity, and cost are not reimbursable. Materials and supplies withdrawn from inventory and charged to the mandated activity must be based on a recognized method of pricing, consistently applied. Purchases may be claimed at the actual price after deducting discounts, rebates and allowances received by local agencies.

(a) Calculating a Unit Cost for Materials and Supplies

In those instances where the claiming instructions suggest that a unit cost be developed for use as a basis of claiming costs mandated by the State, the materials and supplies component of the unit cost should be expressed as a unit cost of materials and supplies as shown in Table 1 or Table 2:

Table 1: Calculating a Unit Cost for Materials and Supplies

<u>Supplies</u>	<u>Cost Per Unit</u>	<u>Amount of Supplies Used Per Activity</u>	<u>Unit Cost of Supplies Per Activity</u>
Paper	0.02	4	\$0.08
Files	0.10	1	0.10
Envelopes	0.03	2	0.06
Photocopies	0.10	4	<u>0.40</u>
			<u>\$0.64</u>

Table 2: Calculating a Unit Cost for Materials and Supplies

<u>Supplies</u>	<u>Supplies Used</u>	<u>Unit Cost of Supplies Per Activity</u>
Paper (\$10.00 for 500 sheet ream)	250 Sheets	\$5.00
Files (\$2.50 for box of 25)	10 Folders	1.00
Envelopes (\$3.00 for box of 100)	50 Envelopes	1.50
Photocopies (\$0.05 per copy)	40 Copies	2.00
		<u>\$9.50</u>
If the number of reimbursable instances are 25, then the unit cost of supplies is \$0.38 per reimbursable instance ($\$9.50 \div 25$).		

(3) Contract Services

The cost of contract services is allowable if the local agency lacks the staff resources or necessary expertise, or it is economically feasible to hire a contractor to perform the mandated activity. The claimant must keep documentation on hand to support the name of the contractor, explain the reason for having to hire a contractor, describe the mandated activities performed, give the dates when the activities were performed, the number of hours spent performing the mandate, the hourly billing rate, and the total cost. The hourly billing rate must not exceed the rate specified in the P's & G's for the mandated program. The contractor's invoice or statement must include an itemized list of costs for activities performed. **A copy of the contract must be included with the submitted claim.**

(4) Equipment Rental Costs

Equipment purchases and leases (with an option to purchase) are not reimbursable as a direct cost unless specifically allowed by the claiming instructions for the particular mandate. Equipment rentals used solely for the mandate, are reimbursable to the extent such costs do not exceed the retail purchase price of the equipment plus a finance charge. The claimant must explain the purpose and use for the equipment, the time period for which the equipment was

rented and the total cost of the rental. If the equipment is used for purposes other than reimbursable activities, only the prorata portion of the rental costs can be claimed.

(5) Capital Outlay

Capital outlays for land, buildings, equipment, furniture and fixtures may be claimed if the claiming instructions specify them as allowable. If they are allowable, the claiming instructions for the program will specify a basis for the reimbursement. If the fixed asset or equipment is also used for purposes other than reimbursable activities for a specific mandate, only the prorata portion of the purchase price used to implement the reimbursable activities can be claimed.

(6) Travel Expenses

Travel expenses are normally reimbursable in accordance with the travel rules and regulations of the local jurisdiction. For some programs, however, the claiming instructions may specify certain limitations on expenses, or that expenses can only be reimbursed in accordance with the State Board of Control travel standards. When claiming travel expenses, the claimant must maintain documentation to support the purpose of the trip, identify the name and address of the persons incurring the expense, the date and time of departure and return for the trip, a description of each expense claimed, the cost of transportation, number of private auto mileage traveled, and the cost of tolls and parking with receipts required for charges over \$10.00.

(7) Documentation

It is the responsibility of the claimant to make available to the SCO, upon request, documentation in the form of general and subsidiary ledgers, purchase orders, invoices, contracts, canceled warrants, equipment usage records, land deeds, receipts, employee time sheets, agency travel guidelines, inventory records, and other relevant documents to support claimed costs. The type of documentation necessary for each claim may differ with the type of mandate.

8. Indirect Costs

Indirect costs are: (a) Incurred for a common or joint purpose benefiting more than one cost objective, and (b) not readily assignable to the cost objectives specifically benefited without effort disproportionate to the results achieved. Indirect costs can originate in the department performing the mandate or in departments that supply the department performing the mandate with goods, services, and facilities. To be allowable, a cost must be allocable to a particular cost objective. Indirect costs must be distributed to benefiting cost objectives on bases, which produce an equitable result, related to the benefits derived by the mandate.

Previously, the costs of elected officials were considered expenses related to general government and, thus, were unallowable for reimbursement purposes. Recent interpretation has moved in the opposite direction, except for those items of cost, which are unallowable in the cost principles set forth in Office of Management and Budget Circular (OMB) Circular A-87 (Title 2 CFR Part 225). A cost that is necessary for proper and efficient administration of a program and is identifiable to that program is eligible for consideration as allocable indirect costs. Allocable costs for time spent on programs, must be supported by time record.

Local agencies have the option of using 10% of direct labor as indirect costs or claiming indirect costs through a department's Indirect Cost Rate Proposal (ICRP) for the program prepared in accordance with the provisions of Office of Management and Budget OMB Circular A-87 (Title 2 CFR Part 225.) (Refer to the Appendix-Costs Computation: Indirect Costs). An ICRP must be prepared if the claim for indirect costs is in excess of 10% of direct salaries; the ICRP must be submitted with the claim.

A. Fixed 10% Rate Method

Indirect costs may be computed as 10% of direct labor costs, excluding fringe benefits. The use of the 10% rate may benefit small agencies where it is inefficient to prepare an ICRP.

Direct Costs Incurred By	On Behalf of	
<u>Auditor</u>	<u>Welfare Administration</u>	<u>Health Department</u>
Warrant Writing:		
A. Salary of employee working	\$5,000	\$1,000
B. Benefits of above	800	200
C. Cost of paper	350	100
D. First-line supervision (salaries)	3,000	500
E. Indirect cost 10% of A + D	800	150
Total amount charged to benefited departments for warrant writing services	\$9,950	\$1,950

Direct Costs Incurred By	On Behalf of	
<u>Building & Grounds Department</u>	<u>Welfare Administration</u>	<u>Health Department</u>
Maintenance of Buildings:		
A. Salary of employees performing maintenance	\$1,000	\$500
B. Benefits of above	200	100
C. Cleaning supplies	250	150
D. First-line supervision (salaries)	500	200
E. Indirect cost 10% of A + D	150	70
Total amount charged to benefited departments for building maintenance services	\$2,100	\$1,020

Any local agency using this method for claiming costs must submit a statement similar to the example above and with supporting data. The cost data required for desk audit purposes are described in the claiming instructions for that mandated program under Salaries and Employee Benefits, Materials and Supplies, Contract Services, Travel Expenses, etc.

B. Indirect Cost Rate Proposal Method

If a local agency elects not to utilize the 10% fixed rate method but wants to claim indirect costs, it must prepare an ICRP for the program. The proposal must follow the provisions of the Office of Management and Budget (OMB) Circular A-87 (Title 2 CFR Part 225), *Cost Principles for State, Local, and Indian Tribal Governments*. The development of the indirect cost rate proposal requires that the indirect cost pool include only those costs which are incurred for a

common or joint purpose that benefit more than one cost objective. The indirect cost pool may only include costs that can be shown to provide benefits to the program. In addition, total allocable indirect costs may only include costs, which cannot be directly charged to an identifiable cost center (i.e., program).

A method for preparing a departmental indirect cost rate proposal for programs is presented as Exhibit 1. Only this format is acceptable under the SCO reimbursement requirements. If more than one department is involved in the reimbursement program, each department must have their own indirect cost rate proposal for the program.

**INDIRECT COST RATE PROPOSAL
PUBLIC DEFENDER'S OFFICE INVESTIGATION PROGRAM
FISCAL YEAR 20__-20__**

Exhibit 1

(a) Description of Costs	Total Costs	(b) Excludable Unallowable Costs	(c) Allowable Indirect Costs	(d) Allowable Direct Costs	Identifiable Program Costs	
					Investigation PC 987.9	All Others
Salaries & Benefits						
Salaries & Wages	\$ 1,150,000	\$ 50,000 (f)	\$ 150,000	\$ 950,000 (f)	\$ 100,000	\$ 850,000
Overtime	20,000	0	20,000	0	0	0
Benefits	230,000	10,000	30,000	190,000	20,000	170,000
Total	<u>\$ 1,400,000</u>	<u>\$ 60,000</u>	<u>\$ 200,000</u>	<u>\$ 1,140,000</u>	<u>\$ 120,000</u>	<u>\$ 1,020,000</u>
Services & Supplies						
Office Expense	\$ 200,000	\$ 10,000	\$ 20,000	\$ 170,000	\$ 10,000	\$ 160,000
Communications	100,000	2,000	10,000	88,000	1,000	87,000
Transportation	120,000	5,000	0	115,000	5,000	110,000
Special Dept Expense (Contracts)	250,000	0	0	250,000	0	250,000
Other, Pass Through Program	800,000	800,000	0	0	0	0
Total	<u>\$ 1,470,000</u>	<u>\$ 817,000</u>	<u>\$ 30,000</u>	<u>\$ 623,000</u>	<u>\$ 16,000</u>	<u>\$ 607,000</u>
Capital Expenditures	<u>\$ 100,000</u>	<u>\$ 100,000</u>				
Total Budgetary Expenditures	<u>\$ 2,970,000</u>	<u>\$ 977,000</u>	<u>\$ 230,000</u>	<u>\$ 1,763,000</u>	<u>\$ 136,000</u>	<u>\$ 1,627,000</u>
<u>Distribution Base</u>						
Cost Plan Costs						
Building Use	\$ 50,000	\$ 2,000	\$ 6,000	\$ 42,000	\$ 2,000	\$ 40,000
Equipment Use	30,000	1,000	3,000	26,000	1,000	25,000
Data Processing	50,000	5,000	30,000	15,000	0	15,000
Auditor	20,000	0	20,000	0	0	0
Personnel	10,000	1,000	1,000	8,000	1,000	7,000
Roll Forward	10,000	0	10,000	0	0	0
Total	<u>\$ 170,000 (e)</u>	<u>\$ 9,000</u>	<u>\$ 70,000</u>	<u>\$ 91,000</u>	<u>\$ 4,000</u>	<u>\$ 87,000</u>
Total Allocable Indirect Costs			\$ 300,000 (f)			
Distribution of Allocable Indirect Costs Based on Salaries & Wages		\$ 15,000	\$ (300,000)	\$ 285,000	\$ 30,000	\$ 255,000
Totals	<u>\$ 3,140,000</u>	<u>\$ 1,001,000</u>	<u>\$ 0</u>	<u>\$ 2,139,000</u>	<u>\$ 170,000</u>	<u>\$ 1,969,000</u>

(1) Notes to Exhibit 1

- (a) The department's ICRP plan for the distribution of costs to programs must follow the same format as shown on Exhibit 1. Specifically, there must be columns as follows: Description of Costs, Total Cost, Excludable and Unallowable Costs (may be combined or separated), Allowable Indirect Costs, and Allowable Direct Costs (which are further allocated to identifiable programs and other). No other format will be accepted.
- (b) Excluded costs are all costs that are unallowable and unallocable according to specific guidelines (OMB 2 CFR Part 225 and state laws).

Examples:

Contributions and donations: Cost of amusement; social activities and related incidental costs such as meals, beverages, lodging, rentals, transportation and gratuities; and pass through revenues to another unit or organization.

- (c) Allocable indirect costs are costs that are not identifiable to a specific program or cost pool and indirectly benefit all cost pools.
- (d) Direct costs are costs that benefit a specific program or cost pool.
- (e) Overhead costs are distributed to the department in the cost allocation plan, which was prepared in accordance with the OMB 2 CFR Part 225. Use the same year's cost allocation plan for developing the ICRP as the year for which the ICRP is being prepared. Do not include a roll forward adjustment when the program is in its initial year.
- (f) Distribution base for the computation of the indirect cost rate is total salaries and wages.

Total Allocable Direct Costs (direct S&W)	\$950,000
Excluded and Unallowable Costs (direct S&W)	50,000
Distribution Base	<u>\$1,000,000</u>

Therefore, the Indirect Cost Rate for Penal Code 987.9 Program is:

$$\text{ICRP} = \frac{\text{Allowable Indirect Costs}}{\text{Total Salaries and Wages}} = \frac{\$300,000}{\$1,000,000} = 30.00\%$$

9. Time Study Guidelines**Background**

Two methods are acceptable for documenting employee time charged to mandated cost programs: 1) Actual Time Reporting and 2) Time Study. These methods are described below. Application of time study results is restricted. As explained in the Time Study Results section below, the results may be projected forward a maximum of two years or applied retroactively to initial claims, current-year claims, and late-filed claims, provided certain criteria are met.

Actual Time Reporting

Each program's P's & G's define reimbursable activities for each mandated cost program. When employees work on multiple activities, a distribution of their salaries or wages must be supported by personnel activity reports or equivalent documentation that meets the following standards:

- They must reflect an after-the-fact (contemporaneous) distribution of the actual activity of each employee;
- They must account for the total activity for which each employee is compensated

- They must be prepared at least monthly and must coincide with one or more pay periods; and
- They must be signed by the employee.

Budget estimates or other distribution percentages determined before services are performed do not qualify as support for time distribution.

Time Study

In certain cases, a time study may be used to substitute for continuous records of actual time spent on multiple activities and/or programs. An effective time study requires that an activity be a task that is repetitive in nature. Activities that require a varying level of effort are not appropriate for time studies.

Time Study Plan

The claimant must develop a plan before the time study is conducted. The claimant must retain the time study plan for audit purposes. The plan must identify the following:

- Time period(s) to be studied – The plan must show that all time periods selected are representative of the fiscal year, and the results can be reasonably projected to approximate actual costs;
- Activities and/or programs to be studied – For each mandated program included, the time study must separately identify each reimbursable activity defined in the mandated program's P's & G's, which are derived from the program's Statement of Decision. If a reimbursable activity in the P's & G's identifies separate and distinct sub-activities, these sub-activities must also be treated as individual activities.

For example, sub-activities (a), (b), and (c) under Reimbursable Activity (B)(1) of the local agency's Domestic Violence Treatment Services: Authorization and Case Management program relate to information to be discussed during victim notification by the probation department and therefore are not separate and distinct activities. These sub-activities do not have to be separately studied.

- Process used to accomplish each reimbursable activity – Use flowcharts or similar analytical tools and/or written desk procedures to describe the process for each activity.
- Employee universe – The employee universe used in the time study must include all positions for which salaries and wages are to be allocated by means of the time study.
- Employee sample selection methodology – The plan must show that employees selected are representative of the employee universe, and the results can be reasonably projected to approximate actual costs. In addition, the employee sample size should be proportional to the variation in time spent to perform a task. The sample size should be larger for tasks with significant time variations.
- Time increments to be recorded – The time increments used should be sufficient to recognize the number of different activities performed and the dynamics of these responsibilities. Very large increments (such as one hour or more) might be used for employees performing only a few functions that change very slowly over time. Very small increments (a number of minutes) may be needed for employees performing more short-term tasks.

Random moment sampling is not an acceptable alternative to continuous time records for mandated cost claims. Random moment sampling techniques are most applicable in situations where employees perform many different types of activities on a variety of programs with small time increments throughout the fiscal year.

Time Study Documentation

Time studies must:

- Be supported by time records that are completed contemporaneously;
- Report activity on a daily basis;
- Be sufficiently detailed to reflect all mandated activities and/or programs performed during a specific time period; and
- Coincide with one or more pay periods.

Time records must be signed by the employee (electronic signatures are acceptable) and be supported by corroborating evidence, which validates that the work was actually performed. As with actual time reporting, budget estimates or other distribution percentages determined before services are performed do not qualify as valid time studies.

Time Study Results

Time study results must be summarized to show how the time study supports the costs claimed for each activity. Any variations from the procedures identified in the original time study plan must be documented and explained. Current-year costs must be used to prepare a time study. Claimants may project time study results to no more than two subsequent fiscal years. A claimant may not apply time study results retroactively.

- Annual Reimbursement Claims – Claimants may use time studies to support costs incurred on or after January 1, 2005. Claimants may not use time studies for the period July 1, 2004, through December 31, 2004, unless (1) the program's P's & G's specifically allows time studies, and (2) the time study is prepared based on mandated activity occurring between July 1, 2004, and December 31, 2004.
- Initial Claims –When filing an initial claim for new mandated programs, claimants may only use time study results for costs incurred on or after January 1, 2005. Claimants may not use time studies to support costs incurred before January 1, 2005, unless (1) the program's P's & G's specifically allow time studies, and (2) the claimant prepares separate time studies for each fiscal year preceding January 1, 2005, based on mandated activity occurring during those years.

When projecting time study results, the claimant must certify that there have been no significant changes between years in either (1) the requirements of each mandated program activity or (2) the processes and procedures used to accomplish the activity. For all years, the claimant must maintain corroborating evidence that validates the mandated activity was actually performed. Time study results used to support subsequent years' claims are subject to the recordkeeping requirements for those claims.

10. Offsets against State Mandated Claims

When part or all the costs of a mandated program are specifically reimbursable from non-local agency sources (e.g., state, federal, foundation, etc.), only that portion of any increased costs payable from local agency funds is eligible for reimbursement under the provisions of Government Code Section 17561.

A. Example 1

This example shows how the offset against a state mandated claim is determined for local agencies receiving block grant revenues not based on a formula allocation. Listed below are six situations, which may occur at a local agency level. For hypothetical program costs of \$100,000: (1) through (4) show intended funding at 100% from non-local agency sources and (5) through (6) show cost sharing on a 50/50 basis with the local agency. Of the \$100,000 program cost, \$2,500 is the cost of state mandated activity. Offset against state mandated claims is the amount

of actual non-local agency funding which exceeds the difference between program costs and state mandated costs. The offset against state mandated claims cannot exceed the amount of state mandated costs. In (4), non-local revenues were fully realized to cover the entire cost of the program, including the state mandate activity; therefore, the offset against state mandated claims is \$2,500. In (1), non-local revenues were less than expected. Non-local agency funding was not in excess of the difference between program costs and state mandated costs. As a result, the offset against state mandated claims is zero and \$2,500 is claimable as mandated costs. In (5), the local agency is sharing 50% of the program cost. Since non-local revenues of \$50,000 were fully realized, the offset against state mandated claims is \$1,250.

	<u>Program Costs</u>	<u>Actual Non-Local Agency Funding</u>	<u>State Mandated Costs</u>	<u>Offset Against State Mandated Claims</u>	<u>Claimable Mandated Costs</u>
A. Block Grants (funding not based on a formula allocation)					
1.	\$100,000	\$95,000	\$2,500	\$-0-	\$2,500
2.	100,000	97,000	2,500	-0-	2,500
3.	100,000	98,000	2,500	500	2,000
4.	100,000	100,000	2,500	2,500	-0-
5.	100,000 *	50,000	2,500	1,250	1,250
6.	If in (5) the non-local matching share is less than the amount expected, for example \$49,000, the offset against state mandated claims is \$250. Therefore, the claimable mandated costs are \$2,250				

* Local agency share is \$50,000 of the program costs.

B. Example 2

This example shows how the offset against state mandated claims are determined for local agencies receiving special project funds based on approved actual costs. Non-local revenues for special projects must be applied proportionately to approve costs. In (2), the entire program cost was approved. Since the non-local agency source covers 75% of the program cost, it also proportionately covered 75% of the \$2,500 state mandated costs, or \$1,875.

	<u>Program Costs</u>	<u>Actual Non-Local Agency Funding</u>	<u>State Mandated Costs</u>	<u>Offset Against State Mandated Claims</u>	<u>Claimable Mandated Costs</u>
B. Special Projects (funding based on approved actual costs)					
1.	\$100,000	\$100,000	\$2,500	\$2,500	\$-0-
2.	100,000 **	75,000	2,500	1,875	625
3.	If in (2) the non-local matching share is less than the amount expected, because only \$60,000 of the program costs were determined to be valid by the contracting agency, then a proportionate share of state mandated costs is likewise reduced to \$1,500. The offset against state mandated claim is \$1,125. Therefore, the claimable mandated costs are \$375.				

** Local agency share is \$25,000 of the program cost

With respect to local agencies, the offset against state mandated claims for applicable federal and state local assistance programs includes, but is not limited to, the following funding sources:

Federal and State Funding Sources

Governing Authority

Federal Programs:

CETA, PL 93-203	Federal-Health – Administration
Federal Aid for Construction	Federal-Public Assistance – Administration
Federal Aid for Disaster	

State Programs:

State Aid for Agriculture	State-Health – Administration
State Aid for Construction	State-Public Assistance - Administration
State Aid for Corrections	

11. Notice of Claim Adjustment

All claims submitted to the SCO are reviewed to determine if the claim was prepared in accordance with the claiming instructions. Claimants will receive a *Notice of Claim Adjustment* detailing any adjustment made by the SCO.

12. Audit of Costs

Pursuant to GC section 17558.5, subdivision (b), the SCO may conduct a field review of any claim after it has been submitted, prior to the reimbursement of the claim to determine if costs are related to the mandate, are reasonable and not excessive, and the claim was prepared in accordance with SCO's claiming instructions and the P's & G's adopted by the CSM. If any adjustments are made to a claim, a Notice of Claim Adjustment specifying the claim activity adjusted, the amount adjusted, and the reason for the adjustment, will be mailed within thirty days after payment of the claim.

13. Source Documents

Costs must be traceable and supported by source documents that show the validity of such costs, when they were incurred, and their relationship to the reimbursable activities. A source document is a document created at or near the same time the actual cost was incurred for the event or activity in question. Source documents may include, but are not limited to, employee time records or time logs, sign-in sheets, invoices, and receipts.

Evidence corroborating the source documents may include, but is not limited to, worksheets, cost allocation reports (system generated), purchase orders, contracts, agendas, training packets, and declarations. Declarations must include a certification stating, "I certify under penalty of perjury under the laws of the State of California that the foregoing is true and correct," and must further comply with the requirements of Code of Civil Procedure section 2015.5. Evidence corroborating the source documents may include data relevant to the reimbursable activities otherwise in compliance with local, state, and federal government requirements. However, corroborating documents cannot be substituted for source documents.

14. Claim Forms and Instructions

A claimant may submit a computer generated report in substitution for Form 1 and Form 2 provided the format of the report and data fields contained within the report are identical to the claim forms included with these instructions. The claim forms provided with these instructions should be duplicated and used by the claimant to file a reimbursement claim. The SCO will revise the manual and claim forms as necessary.

A. Form 2, Activity Cost Detail

This form is used to segregate the detail costs by claim component. In some mandates, specific reimbursable activities have been identified for each component. The expenses reported on this form must be supported by the official financial records of the claimant.

B. Form 1, Claim Summary

This form is used to summarize direct costs by component and compute allowable indirect costs for the mandate. The direct costs summarized on this form are derived from Form 2 and are carried forward to Form FAM-27.

C. Form FAM-27, Claim for Payment

This form contains a certification that must be signed by an authorized officer of the entity. All applicable information from Form 1 must be carried forward to this form in order for the SCO to process the claim for payment. An original and one copy of the Form FAM-27 are required.

Submit a signed original Form FAM-27 and one copy with required documents. **Please sign the Form FAM-27 in blue ink and attach the copy to the top of the claim package.**

Mandated costs claiming instructions and forms are available online at the SCO's website: **www.sco.ca.gov/ard_mancost.html**.

Use the following mailing addresses:

If delivered by
U.S. Postal Service:

Office of the State Controller
Attn: Local Reimbursements Section
Division of Accounting and Reporting
P.O. Box 942850
Sacramento, CA 94250

If delivered by
other delivery services:

Office of the State Controller
Attn: Local Reimbursements Section
Division of Accounting and Reporting
3301 C Street, Suite 700
Sacramento, CA 95816

If you have any questions, you may e-mail **LRSDAR@sco.ca.gov** or call the Local Reimbursements Section at (916) 324-5729.

15. Retention of Claiming Instructions

For your convenience, the revised claiming instructions in this package have been arranged in alphabetical order by program name. This Manual should be retained for future reference, and the forms should be duplicated to meet your filing requirements. Annually, new or revised forms, instructions, and any other information claimants may need to file claims will be placed on the SCO's Web site located at www.sco.ca.gov/ard_mancost.html.

If you have any questions concerning mandated cost reimbursements, please write to us at the address listed for filing claims, send e-mail to lrsdar@sco.ca.gov, or call the Local Reimbursements Section at (916) 324-5729.

16. Retention of Claim Records and Supporting Documentation

Pursuant to GC section 17558.5, subdivision (a), a reimbursement claim for actual costs filed by a local agency pursuant to this chapter is subject to the initiation of an audit by the Controller no later than three years after the date that the actual reimbursement claim is filed or last amended, whichever is later. However, if no funds were appropriated or no payment was made to a claimant for the program for the fiscal year for which the claim was filed, the time for the Controller to initiate an audit shall commence to run from the date of initial payment of the claim. In any case, an audit will be completed not later than two years after the date that the audit was commenced.

All documents used to support the reimbursable activities must be retained during the period subject to audit. If the Controller has initiated an audit during the period subject to audit, the retention period is extended until the ultimate resolution of any audit findings. Supporting documents must be made available to SCO on request.